

# RatingsDirect®

---

**Summary:**

## New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note

**Primary Credit Analyst:**

Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

**Secondary Contact:**

Tiffany Tribbitt, New York (1) 212-438-8218; Tiffany.Tribbitt@spglobal.com

### Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note

### Credit Profile

US\$22.16 mil GO mun purp loan ser 2018 due 03/01/2046

*Long Term Rating* AA-/Stable New

*Underlying Rating for Credit Program* AA-/Stable New

US\$20.389 mil GO BANs dtd 05/03/2018 due 05/03/2019

*Short Term Rating* SP-1+ New

New Bedford GO BANs

*Short Term Rating* SP-1+ Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' program rating and 'AA-' underlying rating for credit program to the city of New Bedford, Mass.' 2018 state qualified municipal purpose general obligation (GO) bonds. At the same time, we affirmed our 'AA-' program rating and 'AA-' underlying rating on the city's debt outstanding. The outlook on the program rating is stable, reflecting the outlook on the state of Massachusetts, and the outlook on the underlying rating is stable.

Additionally, we assigned our 'SP-1+' short-term rating to the city's GO bond anticipation notes (BANs) and affirmed its 'SP-1+' short-term rating on the city's existing BANs outstanding that mature May 3, 2018. The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, New Bedford maintains a very strong capacity to pay principal and interest when the notes come due. The city has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

New Bedford's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds and BANs. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect). We are rating the obligation at the same level with our view of New Bedford's general creditworthiness as expressed in our rating on the unlimited-tax GO bonds.

We understand officials intend to use bond proceeds to permanently finance existing BANs, originally issued for school construction and other capital projects. We further understand that the BAN proceeds will provide funding for school construction, airport improvements, and other capital projects.

The long-term rating reflects our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income (EBI) at 71.3% and market value per capita of \$61,250, though that benefits from access to a broad and diverse metropolitan statistical area (MSA);

- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with break-even operating results in the general fund and break-even operating results at the total governmental fund level in fiscal 2017;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2017 of 7.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.9% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 41.6% of total governmental fund revenue, as well as rapid amortization, with 65.2% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

### **Adequate economy**

We consider New Bedford's economy adequate. The city, with an estimated population of 96,142, is in Bristol County in the Providence-Warwick MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 71.3% of the national level and per capita market value of \$61,250. Overall, market value grew by 6.3% over the past year to \$5.9 billion in 2018. The county unemployment rate was 4.7% in 2016.

In recent years, New Bedford has worked to redefine its local economy. The city's location on the Massachusetts coast enabled it to become one of the region's largest fishing ports, as well as a manufacturing hub. While the fishing industry continues to thrive as one of the largest commercial fishing ports in the country, the city has looked to develop other industries to diversify and expand the economy.

Most notably, the city is hoping to capitalize on its marine commerce terminal, a state-funded \$113 million, 26-acre facility built for the assembly and deployment of offshore wind turbines. The terminal was built largely to accommodate the Cape Wind project, but that project reached an impasse and dissolved in January 2015. Currently, the state is in the final stages of selecting a winning bid from three competing proposals projects for developing offshore wind projects on the Massachusetts coast. As potentially the only site capable of handling the technical needs of these proposals, the city is positioned well to potentially benefit from future wind development projects.

Additionally, New Bedford is continuing to work toward opening a new business park. Located on the site of the city's existing golf course, which would be reconfigured to accommodate the loss of acreage, the city's second business park would consist of 250+ acres at the convergence of two highways. City management had previously anticipated a five-to seven-year development timeline, but believes now that will be accelerated to two-to-three years.

City management is very active in promoting economic development. Recent projects to redevelop downtown have helped expand tourism, resulting in a new boutique hotel, brewing company, and other new small businesses. Given management's hands-on approach to economic development, we expect that the city's tax base will continue to expand. The city is also well positioned to make great strides over the medium-to-long term if the marine terminal or business park projects stimulate other major developments. However, the underlying economy remains somewhat

challenged, as evidenced by the wealth and income metrics. We expect that the city will continue to see expansion of the tax base, but that the economy will remain adequate over the two-year outlook period.

### **Very strong management**

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

New Bedford's key budgeting practices include the use of historical data and trend analysis to guide its revenue and expenditure assumptions. In preparing its annual revenue projections, management considers state and county tax assessments and the city estimates nontax revenues when calculating the annual tax levy. For expenditures, management accounts for principal and interest on debt service and adjustments to contractual obligations. Furthermore, it monitors budgetary performance and reports budget-to-actuals to the city council quarterly, addressing budget trends and variances. These reports are easily accessible on the city's website, increasing transparency. Supplemental appropriations and transfers between appropriation items may be made during the course of the fiscal year with approval of the city council.

Furthermore, the city maintains a comprehensive five-year capital improvement plan (CIP) that describes and prioritizes major projects and capital vehicle replacements by municipal department. The plan is prepared annually, in coordination with the budget process, and identifies internal and external funding sources. At the same time, the city has a limited long-term financial plan, and management is working internally and with outside entities to revise and improve it.

New Bedford maintains a formal investment policy in accordance with state statutes. In addition, the city treasurer delivers a quarterly earnings and holdings report to the CFO. There is also a written debt management policy which identifies debt affordability and capacity targets based on outstanding debt as a percentage of per capita income, outstanding debt as a percentage of assessed valuation (not to exceed 10%), and annual debt service as a percentage of general fund expenditures (not to exceed 10%). The policy also includes a goal to amortize 60% to 70% of tax-supported debt within 10 years. Furthermore, the city's reserve policy targets a stabilization reserve balance of 2%-6% of the current year's general fund budget, and free cash balances of no lower than 1% of the operating budget. The city is currently in compliance with its reserve policies.

### **Strong budgetary performance**

New Bedford's budgetary performance is strong, in our opinion. The city had break-even operating results in the general fund, but a balanced result across all governmental funds of 0.4% in fiscal 2017.

The city finished the year with break-even results in both the general fund and total governmental funds. Our analysis accounts for recurring transfers, as well as the expenditure of bond proceeds and one-time revenues.

Officials had predicted break-even results in fiscal 2017, finishing the year with a \$68,000 surplus in the general fund. Management notes three main sources of expenditure growth--pension contributions, employee health care, and charter schools--and they will continue to monitor and adjust the budget for these expenses. There was a goal in 2017 of maintaining services while providing tax relief with a \$700,000 use of fund balance to stabilize the tax rate.

Management is anticipating a modest general fund surplus in fiscal 2018, with an anticipated surplus of approximately

\$1.5 million. The fiscal 2019 budget is in the process of being finalized. Management is working to constrain health care expenditure growth, while also absorbing previously grant-funded public safety personnel. Additionally, the city is working to absorb an increase in its required pension contribution of \$1 million. Based on management's projections for fiscal 2018 and its clear efforts to produce year-end balanced results, we expect that the city will continue to produce strong budgetary performance.

However, we note the city may be somewhat susceptible to state-aid decreases since intergovernmental revenue accounts for 56% of general fund revenue and 66% of total governmental funds revenue; commonwealth revenue, however, has been relatively stable and management has done well to appropriately budget any changes. We note property taxes generate 33% of general fund revenue, and property tax collections have improved to 97% in fiscal 2017. Additionally, while pension and OPEB carrying charges totaled 9.9% of total governmental funds expenditures in fiscal 2017, if these costs grow, they could further pressure the budget.

### **Adequate budgetary flexibility**

New Bedford's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2017 of 7.8% of operating expenditures, or \$26.5 million.

While the city's available fund balance remained essentially flat on a dollar-basis, it declined as a percentage of expenditures to 7.8% from 8.4%. We have included the city's stabilization fund in our calculation, as it can be made available for use by the city council. New Bedford's reserve policy is based on the stabilization account, which it is currently in compliance with, at 3.0% of 2018 budgeted general fund expenditures. We note the city has \$27 million in unused levy capacity, which provides additional flexibility in raising revenues. We do not expect the available fund balance to decline on a nominal basis, but it may shrink further as a percentage of expenditures depending on fiscal 2018 year-end results. Currently, we expect that that budgetary flexibility will remain adequate.

### **Very strong liquidity**

In our opinion, New Bedford's liquidity is very strong, with total government available cash at 18.9% of total governmental fund expenditures and 3.6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

New Bedford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and BANs. The city does not have any variable-rate or direct-purchase debt, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Furthermore, city investments are subject to state statutes. New Bedford's formal investment policy allows it to invest its cash in low-risk assets, including the state's short-term investment funds, certain mutual and money market funds, U.S. securities and municipal obligations, or short-term certificates of deposit (CDs). Currently, the majority of its cash is invested in money market funds and CDs that mature in less than one year. For these reasons, the available cash position remains very strong and stable, and we expect the liquidity profile to remain very strong over the next two fiscal years.

### **Adequate debt and contingent liability profile**

In our view, New Bedford's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 41.6% of total governmental fund revenue. Approximately 65.2% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Following this issue, the city anticipates issuing about \$33 million in new-money debt to finance several capital projects and capital leases, as referenced in the CIP. We do not expect this additional debt to weaken the debt profile, as we expect the city to pay off existing principal in an amount greater than the two-year debt plans.

In our opinion, a credit weakness is New Bedford's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. New Bedford's combined required pension and actual OPEB contributions totaled 9.9% of total governmental fund expenditures in 2017. Of that amount, 6.0% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The city made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 46.3%.

The city participates in the New Bedford Contributory Employees' Retirement System, of which it represents approximately 87% of the total system liability and contributions. It paid \$26.7 million for its proportionate share of the required contribution in 2017. The city's proportionate share of the net pension liability was approximately \$300 million, as of Dec. 31, 2016. Historically, it has fully funded its actuarially determined contribution in full and management expects it will continue to do so. The city is on schedule to fund the pension plan in full by 2034. The system is 46.3% funded, which we consider very low, using a discount rate of 7.75%, which we consider somewhat higher than average. Should the discount rate decrease, we would anticipate that the unfunded liability and required contributions would increase, likely further pressuring the budget.

The city's teachers participate in the Massachusetts Teachers' Retirement System (MTRS), which qualifies as a special funding situation. The state makes all contributions on behalf of the city, which has no obligation or liability under MTRS.

The city recently completed an exhaustive review of its health care program, with the objective of reducing retiree health care costs, and it continues to examine how it may do so further. In December 2015, the city council voted to establish an OPEB trust fund, which currently has a balance of \$1.1 million. New Bedford adopted a policy to contribute at least 10% of certified free cash being added to the trust each year. In 2017, it contributed \$270,000. The OPEB unfunded actuarial accrued liability is \$485 million. We expect the city's retirement liabilities to remain significant in the short-to-medium term, with annual costs potentially accelerating and pressuring the budget, as the city approaches the 2034 pension funding target.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## Outlook

The stable outlook reflects our opinion of New Bedford's very strong management, which is supported by the city's emphasis on maintaining and adhering to formal plans, policies, and practices. It also reflects the city's ability to sustain its very strong liquidity, in conjunction with consistent budgetary performance and flexibility. While New Bedford's economy remains somewhat challenged, we believe it will remain adequate due to its participation in the broad and diverse Providence-Warwick MSA. In addition, we expect that the debt and liability profile will remain relatively stable over the next several years. For these reasons, we do not expect to change the rating within the next two years.

### Upside scenario

All else being equal, we could raise the rating if the city's wealth and income metrics and budgetary flexibility were to increase to levels we consider commensurate with higher rated peers, while also mitigating its long-term pension and OPEB liabilities.

### Downside scenario

We could lower the rating if the city experiences a significant deterioration in budgetary performance, leading to weakened fund balance reserves and liquidity constraints.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of April 10, 2018)		
New Bedford GO st enhancement prog		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
New Bedford GO st qual mun purp loan bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
New Bedford GO State Enhancement Prog		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is

*Summary: New Bedford, Massachusetts; General Obligation; Non-School State Programs; Note*

available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.